



## United States Senate

WASHINGTON, DC 20510-0905

July 2, 2010

The Honorable Max Baucus  
Chairman  
U.S. Senate Committee on Finance  
219 Dirksen Senate Building  
Washington, D.C. 20510

The Honorable Charles Grassley  
Ranking Member  
U.S. Senate Committee on Finance  
219 Dirksen Senate Building  
Washington, D.C. 20510

Dear Chairman Baucus and Senator Grassley,

While the people of the Gulf Coast work to clean oil off their shores, the damage caused by the Deepwater Horizon oil spill will also have lasting economic consequences for the entire region. In large parts of Florida, Alabama, Mississippi, and Louisiana, the Gulf of Mexico is the engine of economic activity. Protecting and preserving our coastal economies requires a bold vision and decisive action.

Beautiful beaches, rich wetlands, and bountiful waters attract millions of visitors to the Gulf of Mexico every year. Activities such as recreational fishing, snorkeling, scuba diving, boating, and wildlife viewing and hunting sustain hundreds of thousands of jobs and small businesses in the region. Inland and out-of-state tourists generate demand for Gulf Coast hotels, restaurants, retail outlets, and services. And for many family-owned small businesses, commercial and charter fishing is a way of life that extends back generations.

In addition to the direct economic benefits that flow from the Gulf of Mexico waters, residential and commercial property values are closely tied to beach and water conditions. People are drawn to the Gulf Coast for its natural beauty and a good quality of life.

The Deepwater Horizon oil spill therefore gives us great concern for the future of our state economies. Looking forward, we believe that federal tax policy can and should play a role in the region's economic recovery. We have assembled a package of tax incentives to begin this process. The proposals would achieve three basic objectives: (1) providing relief for struggling small businesses, (2) stimulating investment and job creation, and (3) sustaining travel and tourism in the region.

The tax proposals are aimed at small businesses operating in the Gulf Coast Oil Spill Economic Recovery Zone. The zone would consist of counties and parishes from Florida to Louisiana that border the Gulf of Mexico. Specifically, we ask you to support and include the following in upcoming tax legislation:



### Tax relief for struggling Gulf Coast small businesses

- **Tax deferral for small business reimbursements that are reinvested in an oil spill recovery zone trade or business.** Under current law, a small business owner may incur significant tax liability on payments from BP for lost profits. Tax liability may also arise if the payment from BP is for property damage and the amount paid exceeds the adjusted basis of the damaged property. BP claims and business interruption insurance proceeds paid to Gulf Coast small businesses should be deferred from income tax to the extent the payment is reinvested in a trade or business located in the oil spill recovery zone within 6 months of receipt.
- **Extension of the net operating loss (NOL) carryback period.** Congress should amend the tax law to provide a 5-year carryback period for business losses related to the oil spill and incurred by a commercial or charter fishing, or tourism-related, business in the oil spill recovery zone. An extended carryback period would allow Gulf Coast small businesses suffering severe economic losses through no fault of their own to receive a capital infusion by receiving a refund of past taxes paid. Eligible losses should be reduced to the extent the taxpayer receives BP or insurance reimbursement for lost profits or earnings.
- **Hardship access to retirement savings.** Small business owners and other taxpayers suffering economically as a result of the oil spill should be permitted to take penalty-free early withdrawals from their retirement plans. In addition, to the extent the withdrawal is taxable, taxpayers should be able to recognize the income ratably over a 3-year period. The period in which a taxpayer may have a nontaxable 401(k) loan outstanding should be extended. Lastly, in the event of a rapid economic rebound, taxpayers should be allowed to re-contribute their early withdrawals to their retirement plan as a roll-over contribution.

### Stimulating investment and job creation in the oil spill economic recovery zone

- **Oil spill recovery zone job creation tax credit.** Regrettably, the oil spill is displacing thousands of workers from their traditional areas of employment. Congress should amend the tax law to provide that employers hiring new employees in the oil spill recovery zone qualify for the Work Opportunity Tax Credit (WOTC), a 40 percent tax credit on up to \$6,000 of first-year wages paid to employees from targeted groups. Extension of WOTC to the affected region would provide a valuable incentive for job creation.
- **Enhanced small business expensing allowance for oil spill recovery zone.** Under current law, certain taxpayers can elect to deduct the cost of new investment in business equipment, rather than gradually recover the cost through depreciation of the property. The small business expensing allowance does not apply to buildings, permanent structures, and their improvements. In order to promote the region's economic recovery, Congress should expand the small business expensing allowance to cover the cost of new buildings, permanent structures, and improvements in the oil spill recovery zone.



- **Special allocation of New Markets Tax Credits for the oil spill recovery zone.** New Markets Tax Credits (NMTCs) are a powerful and proven tool for encouraging private sector investment in targeted areas. Special allocations of NMTC authority were made following Hurricanes Katrina and Rita. A similar allocation, spread over a 2-year period, should be made to the oil spill recovery zone to contribute to the region's economic recovery.

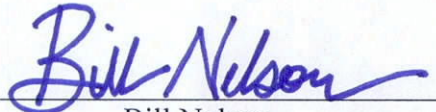
Sustaining tourism along the Gulf Coast

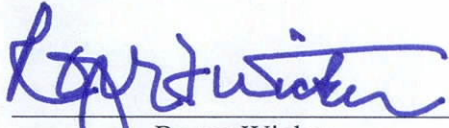
- **Gulf Coast hotel tax holiday.** A reduction in hotel and other tourism-related taxes along the Gulf Coast would help attract out-of-state visitors and offset the decline in tourism related to the oil spill. Without federal assistance, however, such relief would be difficult for cash-strapped state and local governments to afford. Hotel occupancy taxes contribute an estimated \$831 million in annual tax revenue to state and local governments in the four affected Gulf States (Florida, Alabama, Mississippi, and Louisiana). Car rental taxes are another major tourism-related revenue source. Congress should enact a temporary program to reimburse Gulf States and localities for revenue foregone as the result of adopting a hotel or car rental tax holiday.

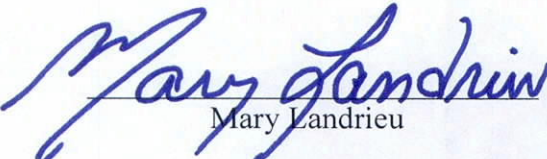
The long-term challenges posed by the Deepwater Horizon oil spill are difficult to overstate. The economic dislocation caused by the worst environmental disaster in United States history has brought us together across party lines and political ideology to identify real and meaningful solutions. Tax incentives to promote the region's economic recovery are part of the answer.

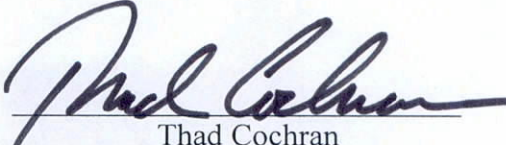
We request that you work with us to quickly enact an oil spill economic relief and recovery tax package that includes the proposals above, and we thank you for your consideration of this matter.

Sincerely,

  
Bill Nelson

  
Roger Wicker

  
Mary Landrieu

  
Thad Cochran

  
David Vitter

  
George LeMieux